

commodity instruments with similar characteristics that are permitted by contract or business custom to be settled in cash or with another financial instrument. For purposes of this paragraph, settlement in cash includes settlement in cash of the net change in value of the derivative commodity instrument (*e.g.*, net cash settlement based on changes in the price of the underlying commodity).

2. For purposes of paragraphs (n)(2), (n)(3), (n)(4), and (n)(7), the required disclosures should address separately derivatives entered into for trading purposes and derivatives entered into for purposes other than trading. For purposes of this paragraph, *trading purposes* has the same meaning as defined by generally accepted accounting principles (see, *e.g.*, FAS 119, paragraph 9a (October 1994)).

3. For purposes of paragraph (n)(6), *anticipated transactions* means transactions (other than transactions involving existing assets or liabilities or transactions necessitated by existing firm commitments) an enterprise expects, but is not obligated, to carry out in the normal course of business (see, *e.g.*, FASB, *Statement of Financial Accounting Standards No. 80*, "Accounting for Futures Contracts," paragraph 9, (August 1984)).

4. Registrants should provide disclosures required under paragraph (n) in filings with the Commission that include financial statements of fiscal periods ending after June 15, 1997.

[45 FR 63669, Sept. 25, 1980, as amended at 46 FR 56179, Nov. 16, 1981; 50 FR 25215, June 18, 1985; 50 FR 49532, Dec. 3, 1985; 51 FR 3770, Jan. 30, 1986; 57 FR 45293, Oct. 1, 1992; 59 FR 65636, Dec. 20, 1994; 62 FR 6063, Feb. 10, 1997]

EFFECTIVE DATE NOTE: At 62 FR 6063, Feb. 10, 1997, § 210.4-08 was amended by adding paragraph (n), effective Apr. 11, 1997.

#### § 210.4-9 [Reserved]

#### § 210.4-10 Financial accounting and reporting for oil and gas producing activities pursuant to the Federal securities laws and the Energy Policy and Conservation Act of 1975.

This section prescribes financial accounting and reporting standards for registrants with the Commission engaged in oil and gas producing activities in filings under the Federal securities laws and for the preparation of accounts by persons engaged, in whole or in part, in the production of crude oil or natural gas in the United States, pursuant to section 503 of the Energy Policy and Conservation Act of 1975 (42 U.S.C. 6383) (*EPCA*) and section 11(c) of the Energy Supply and Environmental

Coordination Act of 1974 (15 U.S.C. 796) (*ESECA*), as amended by section 505 of *EPCA*. The application of this section to those oil and gas producing operations of companies regulated for rate-making purposes on an individual-company-cost-of-service basis may, however, give appropriate recognition to differences arising because of the effect of the ratemaking process.

**Exemption.** Any person exempted by the Department of Energy from any record-keeping or reporting requirements pursuant to section 11(c) of *ESECA*, as amended, is similarly exempted from the related provisions of this section in the preparation of accounts pursuant to *EPCA*. This exemption does not affect the applicability of this section to filings pursuant to the Federal securities laws.

#### DEFINITIONS

(a) **Definitions.** The following definitions apply to the terms listed below as they are used in this section:

(1) *Oil and gas producing activities.* (i) Such activities include:

(A) The search for crude oil, including condensate and natural gas liquids, or natural gas (*oil and gas*) in their natural states and original locations.

(B) The acquisition of property rights or properties for the purpose of further exploration and/or for the purpose of removing the oil or gas from existing reservoirs on those properties.

(C) The construction, drilling and production activities necessary to retrieve oil and gas from its natural reservoirs, and the acquisition, construction, installation, and maintenance of field gathering and storage systems—including lifting the oil and gas to the surface and gathering, treating, field processing (as in the case of processing gas to extract liquid hydrocarbons) and field storage. For purposes of this section, the oil and gas production function shall normally be regarded as terminating at the outlet valve on the lease or field storage tank; if unusual physical or operational circumstances exist, it may be appropriate to regard the production functions as terminating at the first point at which oil, gas, or gas liquids are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal.